

Employers Holdings, Inc.
Form 10-K
February 20, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

R ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the fiscal year ended December 31, 2013

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from ____ to ____

Commission file number: 001-33245

EMPLOYERS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction

of incorporation or organization)

10375 Professional Circle, Reno, Nevada 89521

(Address of principal executive offices and zip code)

(888) 682-6671

(Registrant's telephone number, including area code)

04-3850065

(I.R.S. Employer

Identification Number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, \$0.01 par value per share

Name of each exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes R No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes o No R

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2013 was \$757,913,105.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Class	February 13, 2014
Common Stock, \$0.01 par value per share	31,309,830 shares outstanding

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to the 2014 Annual Meeting of Stockholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

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FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements if accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed. Undue reliance should not be placed on these statements, which speak only as of the date of this report. Forward-looking statements include those related to our expected financial position, business, financing plans, litigation, future premiums, revenues, earnings, pricing, investments, business relationships, expected losses, loss experience, loss reserves, acquisitions, competition, the impact of changes in interest rates, rate increases with respect to our business, and the insurance industry in general. Statements including words such as “expect,” “intend,” “plan,” “believe,” “estimate,” “may,” “anticipate,” “will” or similar statements of a future or forward-looking nature identify forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. All forward-looking statements address matters that involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results, depending on a number of factors. These risks and uncertainties include, but are not limited to, those set forth in Item 1A, “Risk Factors” and the other documents that we have filed with the Securities and Exchange Commission.

NOTE REGARDING RELIANCE ON STATEMENTS IN OUR CONTRACTS

The agreements included or incorporated by reference as exhibits to this Annual Report on Form 10-K may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and:

- were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified in such agreement by disclosures that were made to the other party in connection with the negotiation of the applicable agreement;
- may apply contract standards of “materiality” that are different from “materiality” under the applicable securities laws; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

Notwithstanding the inclusion of the foregoing cautionary statements, we acknowledge that we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

PART I

Item 1. Business

General

Employers Holdings, Inc. (EHI) is a holding company incorporated in Nevada in 2005. Unless otherwise indicated, all references to “we,” “us,” “our,” the “Company” or similar terms refer to EHI together with its subsidiaries. We had 723 full-time employees at December 31, 2013 and our principal executive offices are located at 10375 Professional Circle in Reno, Nevada.

Our insurance subsidiaries have each been assigned an A.M. Best Company (A.M. Best) rating of “A-” (Excellent), with a “negative” financial outlook.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports, and Proxy Statements for our Annual Meetings of Stockholders are available free of charge on our website at www.employers.com as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC). Our website also provides access to reports filed by our Directors, executive officers and certain significant stockholders pursuant to Section 16 of the Securities Exchange Act of 1934. In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, and charters for the standing committees of our Board of Directors are available on our website. Copies of these documents may also be obtained free of charge by written request to Investor Relations, 10375 Professional Circle, Reno, Nevada 89521-4802. The SEC also maintains a website at www.sec.gov that contains the information that we file electronically with the SEC.

Description of Business

We are a specialty provider of workers' compensation insurance focused on select small businesses in low to medium hazard industries. We employ a disciplined, conservative underwriting approach designed to individually select specific types of businesses, predominantly those in the lowest four of the seven workers' compensation insurance industry defined hazard groups, that we believe will have fewer and less costly claims relative to other businesses in the same hazard groups. Workers' compensation is provided for under a statutory system wherein most employers are required to provide coverage for their employees' medical, disability, vocational rehabilitation, and/or death benefit costs for work-related injuries or illnesses. We operate as a single reportable segment and conduct operations in 31 states and the District of Columbia, with a concentration in California, where over one-half of our business is generated. We had total assets of \$3.6 billion and \$3.5 billion at December 31, 2013 and 2012, respectively. The following table highlights key results of our operations for the last three years.

For the Years Ended	Net Premiums Written (in thousands, except ratios)	Total Revenue	Net Income	Statutory Combined Ratio ⁽¹⁾	
December 31, 2013	\$678,466	\$723,581	\$63,824	101.2	%
December 31, 2012	569,676	579,182	106,891	85.8	
December 31, 2011	410,038	464,154	48,623	112.1	

Our combined ratio on a statutory basis is a measure of underwriting profitability. Elsewhere in this report, unless (1) otherwise stated, the term “combined ratio” refers to a calculation based on U.S. generally accepted accounting principles (GAAP).

The statutory combined ratio for the years ended December 31, 2013 and 2012 include the impact of \$27.5 million and \$100.0 million favorable adjustments to the ceded reserves under the Loss Portfolio Transfer Agreement for the years ended December 31, 2013 and 2012, respectively. See Note 2 in the Notes to our Consolidated Financial Statements.

Our statutory combined ratio for the five years ended December 31, 2012 was 100.0%, compared to the industry composite statutory combined ratio of 116.8% for the same five-year period (calculated by A.M. Best for individual companies that have more than 50% of their business in workers' compensation).

Our insurance subsidiaries are domiciled in the following states:

Employers Insurance Company of Nevada (EICN)	State of Domicile Nevada
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Employers Compensation Insurance Company (ECIC)

California

Employers Preferred Insurance Company (EPIC)

Florida

Employers Assurance Company (EAC)

Florida

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Products and Services

Workers' compensation provides insurance coverage for the statutorily prescribed benefits that employers are required to provide to their employees who may be injured or suffer illness in the course of employment. The level of benefits varies by state, the nature and severity of the injury or disease, and the wages of the injured worker. Each state has a statutory, regulatory, and adjudicatory system that sets the amount of wage replacement to be paid, determines the level of medical care required to be provided, establishes the degree of permanent impairment, and specifies the options in selecting healthcare providers. These state laws generally require two types of benefits for injured employees: (a) medical benefits, including expenses related to the diagnosis and treatment of an injury, disease, or both, as well as any required rehabilitation, and (b) indemnity payments, which consist of temporary wage replacement, permanent disability payments, and death benefits to surviving family members.

Disciplined Underwriting

Our strategy is to focus on disciplined underwriting and continue to pursue profitable growth opportunities across market cycles. We carefully monitor market trends to assess new business opportunities that we expect will meet our pricing and risk standards. We price our policies based on the specific risks associated with each potential insured rather than solely on the industry class in which a potential insured is classified. Our disciplined underwriting approach is a critical element of our culture and we believe that it has allowed us to offer competitive prices, diversify our risks, and out-perform the industry.

The following table compares our statutory loss and loss adjustment expense (LAE) ratio, a measure which relates inversely to our underwriting profitability, to the statutory industry composite loss and LAE ratio reported by A.M. Best (calculated for U.S. insurance companies having more than 50% of their premiums generated by workers' compensation insurance products).

Year	Statutory Loss and LAE Ratio	
	EHI ⁽¹⁾	A.M. Best
2008	51.4	% 78.6
2009	57.5	86.1
2010	66.2	87.4
2011	77.6	89.6
2012	57.4	82.7
2013	73.8	N/A ⁽²⁾

Our statutory loss and LAE ratio includes changes to reserves for losses and LAE established for prior periods and (1) the impact of \$27.5 million and \$100.0 million favorable adjustments to the ceded reserves under the Loss

Portfolio Transfer Agreement for the years ended December 31, 2013 and 2012, respectively.

(2) As of the date of this report, statutory industry composite loss and LAE ratio data was not available for 2013.

We execute our underwriting processes through automated systems and experienced underwriters with specific knowledge of local markets. We have developed automated underwriting templates for specific classes of business that produce faster quotes when certain underwriting criteria are met. Our underwriting guidelines consider many factors, such as type of business, nature of operations, and risk exposures, and are designed to minimize or prevent underwriting of certain classes of business.

Loss Control

Our loss control professionals provide consultation to policyholders to assist them in preventing losses and containing costs once claims occur. They also assist our underwriting personnel in evaluating potential and current policyholders and are an important part of our underwriting discipline.

Premium Audit

We conduct premium audits on substantially all of our policyholders annually upon the policy expiration. Premium audits allow us to comply with applicable state and reporting bureau requirements and to verify that policyholders have accurately reported their payroll and employee job classifications. We also selectively perform interim audits on certain classes of business or if unusual claims are filed or concerns are raised regarding projected annual payrolls, which could result in substantial variances at final audit.

Claims and Medical Case Management

The role of our claims department is to actively and efficiently investigate, evaluate, and pay claims, and to aid injured workers in returning to work in accordance with applicable laws and regulations. We have implemented rigorous claims guidelines and control procedures in our claims units and have claims operations throughout the markets we serve. We also provide medical case management services for those claims that we determine will benefit from such involvement.

Our claims department also provides claims management services for those claims incurred by the Nevada State Industrial Insurance System (the Fund) and assumed by EICN and subject to a 100% retroactive reinsurance agreement (the LPT Agreement) with dates of injury prior to July 1, 1995. Additional information regarding the LPT Agreement is set forth under “–Reinsurance–LPT Agreement.” We receive a management fee from the third party reinsurers equal to 7% of the loss payments on these claims.

We utilize medical provider networks affiliated with Anthem Blue Cross of California (Anthem) and Coventry Health Care, Inc. and make every appropriate effort to direct injured workers into these networks for medical treatments. In addition to our medical networks, we work closely with local vendors, including attorneys, medical professionals, and investigators, to bring local expertise to our reported claims. We pay special attention to reducing costs and have established discounting arrangements with the aforementioned service providers. We use preferred provider organizations, bill review services, and utilization management to closely monitor medical costs.

We actively pursue fraud and subrogation recoveries to mitigate claims costs. Subrogation rights are based upon state and federal laws, as well as the insurance policies we issue. Our fraud and subrogation efforts are handled through dedicated units.

Information Technology

Core Operating Systems

We have an efficient, cost-effective and scalable infrastructure that complements our geographic reach and business model and have developed a highly automated underwriting system. This technology applies our underwriting standards and guidelines and allows for the electronic submission, review, and quoting of insurance applications. This policy administration system reduces transaction costs and provides for more efficient and timely processing of applications for small policies that meet our underwriting standards. We believe this approach saves our independent agents and brokers considerable time in processing customer applications and maintains our competitiveness in our target markets. We will continue to invest in technology and systems across our business to maximize efficiency, facilitate customer self-service, and create increased capacity that will allow us to lower our expense ratios while growing premiums.

Business Continuity/Disaster Recovery

We maintain business continuity and disaster recovery plans for our critical business functions, including the restoration of information technology infrastructure and applications. We have two data centers that act as production facilities and as disaster recovery sites for each other. In addition, we utilize an off-site data storage facility for critical customer and systems data.

Customers and Workers' Compensation Premiums

The workers' compensation insurance industry classifies risks into seven hazard groups, as defined by the National Council on Compensation Insurance (NCCI), based on severity of claims, with businesses in the first or lowest group having the lowest claims costs.

We target select small businesses engaged in low to medium hazard industries. Our historical loss experience has been more favorable for lower industry defined hazard groups than for higher hazard groups. Further, we believe it is generally less costly to service and manage the risks associated with these lower hazard groups. Our underwriters use their local market expertise and disciplined underwriting to select specific types of businesses and risks within the classes of business we underwrite that allow us to generate loss ratios that are consistently better than the industry average.

The following table sets forth our in-force premiums by hazard group and as a percentage of our total in-force premiums as of December 31:

Hazard Group	2013	Percentage		Percentage		Percentage of 2011 Total
		of 2013 Total	2012	of 2012 Total	2011	
(in thousands, except percentages)						
A	\$ 146,263	23.7 %	\$ 120,863	22.5 %	\$ 70,398	17.9
B	130,009	21.1	136,849	25.5	95,783	24.3

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C	239,497	38.8	182,416	33.9	145,282	36.9
D	80,910	13.1	77,148	14.4	58,534	14.9
E	18,557	3.0	15,850	2.9	19,094	4.0

The Company has made it a practice to provide incentives to its executive officers and other senior executives to achieve long-range goals that are typically expressed as either a compounded rate of earnings growth or three-year cumulative earnings. In determining the level of long-term incentive awards, the ECC takes into account a survey of the same peer companies referred to above, but does not target a specific percentile.

Stock-Based Incentives. Stock options are awarded to the Company's key employees, including Mr. Wedge and other executive officers, by the ECC, based on its subjective assessment of the following factors: the compensation level and responsibility of the particular employee, the employee's contribution towards Company performance, and a survey of competitive compensation data of the same group of peer companies referred to previously in this report. The ECC generally targets awards to the median of such survey. The options are designed to reward recipients to the extent that the Company's stock value is enhanced. Because of the vesting provisions of such grants, the options also provide an incentive for the employee to remain with the Company. Because the ECC does not grant options on a cumulative basis, the size of previous grants is not a factor in making current grants.

Chief Executive Officer Compensation

Pursuant to Mr. Wedge's employment agreement with the Company, his base salary is \$800,000, effective June 6, 2004, and is reviewed annually. Mr. Wedge's salary and the number of options (250,000) granted to him in 2004 were subjectively determined to provide a fully competitive compensation opportunity based on Mr. Wedge's success in providing leadership to the Company and after a review of competitive compensation data of the same group of peer companies referred to previously in this report without targeting a specific percentile range. The ECC believes stock option grants encourage long-term performance and promote management retention while further aligning stockholders' and management's common interest in enhancing the value of the Company's common stock.

Mr. Wedge's MIP award provides a target opportunity equal to 75% of base salary if performance goals are met; the actual payout can vary between 0% and 100% of base salary for the performance period, subject to a maximum annual award limitation of \$1,000,000. As discussed above, based on a target award of 75% of base salary, Mr. Wedge received a MIP payout of \$635,654 for 2004.

Executive Compensation Committee

Ronald R. Dion, *Chairman*

S. James Coppersmith

Bert N. Mitchell

Helen Frame Peters

Lorne R. Waxlax

Compensation Committee Interlocks and Insider Participation

During 2004, none of the members of the ECC is or was an officer or employee of the Company. None of the Company's executive officers has served as a director or member of the compensation committee (or other committee serving an equivalent function) of any other entity whose executive officers served as a Director or member of BJ's ECC.

Compensation of Executives

The following table sets forth certain information concerning the annual and long-term compensation paid for fiscal 2004, 2003 and 2002 to (i) the Company's Chief Executive Officer and (ii) the Company's four other most highly compensated executive officers who were serving as executive officers of the Company on January 29, 2005 (collectively, the "Named Executive Officers").

Summary Compensation Table

Name and Principal Position	Year(1)	Annual Compensation			Long-Term Compensation		
		Salary	Bonus	Other Annual Compensation(2)	Restricted Stock Awards(3)	Securities Underlying Options(4)	Payouts(5)
Michael T. Wedge <i>President and Chief Executive Officer</i>	2004	\$ 756,731	\$ 635,654	\$ 26,239	\$	250,000	\$
	2003	634,135	393,508	21,988		250,000	157,095
	2002	404,712		16,199		150,000	157,095
Herbert J. Zarkin <i>Chairman of the Board</i>	2004	525,000		366,818	2,139,000(7)	250,000	
	2003	467,788		177,856		250,000	
	2002	350,000		14,009			
Frank D. Forward <i>Executive Vice President, Chief Financial Officer</i>	2004	388,077	130,394	13,456		50,000	
	2003	368,462	137,189	12,776		100,000	157,095
	2002	316,058		12,650		50,000	157,095
Edward F. Giles <i>Executive Vice President, Club Operations</i>	2004	332,693	111,785	11,536		50,000	
	2003	286,923	106,829	9,949		50,000	109,967
	2002	208,058		8,327		35,000	109,967

Karen Stout(8) 2004 216,346 172,693 167,979 237,300(9) 50,000

*Executive Vice
President,*

Merchandising

- (1) 2004 refers to the 52-week year ended January 29, 2005. 2003 refers to the 52-week year ended January 31, 2004. 2002 refers to the 52-week year ended February 1, 2003.
- (2) Includes reimbursement for tax liabilities related to the Company's Executive Retirement Plan (BJERP) (see Retirement Benefits). Excludes perquisites having an aggregate value less than the lesser of \$50,000 or 10% of salary plus bonus, except in the case of Mr. Zarkin, where the reported amount includes an aggregate of \$366,818 of perquisites in 2004, \$323,761 of which relate to Company paid air travel (valued based on the cost to the Company of providing such air travel), and \$177,856 in 2003, \$141,818 of which relate to Company-paid air travel (valued based on the cost to the Company of providing such air travel), and Ms. Stout where the reported amount includes \$143,508 paid in connection with Ms. Stout's relocation from Maryland to Massachusetts.
- (3) The restricted shares convey to the holder the rights of a shareholder, including the right to vote and receive dividends.
- (4) Reflects the grant of options to purchase common stock. The Company has never granted stock appreciation rights.
- (5) Payouts for 2003 and 2002 each represent 50% of the BJGIP award earned by the Named Executive Officers for the three-year performance period ended February 1, 2003.
- (6) For 2004, represents the Company's contributions under the BJ's 401(k) Savings Plan for Salaried Employees and the BJERP (see Retirement Benefits) as presented below:

	2004 Company Contributions	
	401(k) Savings Plan	BJERP
Michael T. Wedge	\$ 5,452	\$ 37,837
Herbert J. Zarkin	6,150	26,250
Frank D. Forward	5,235	19,404
Edward F. Giles	5,571	16,635
Karen Stout		10,817

The amount listed as Company contribution under the BJERP for Ms. Stout is accrued only and Ms. Stout will forfeit the rights to the BJERP benefits if she leaves the Company prior to being credited with four years of service. For a description of the BJERP, see Retirement Benefits on page 18.

- (7) Mr. Zarkin was awarded 100,000 shares of restricted stock on August 9, 2004, all of which vest on the earlier of (i) May 15, 2007 and (ii) the date of the 2007 Annual Meeting of Stockholders. As of January 29, 2005, the market value of the restricted shares was \$2,778,000.
- (8) Ms. Stout was elected Executive Vice President, Merchandising in July 2004.
- (9) Ms. Stout was awarded 10,000 shares of restricted stock on July 6, 2004, which vest in equal installments on the anniversary date of the date of grant in each of 2005, 2006 and 2007. As of January 29, 2005, the market value of the restricted shares was \$277,800.

Stock Option Grants

The following table sets forth the stock option grants made by the Company to each of the Named Executive Officers during 2004:

Option Grants in Last Fiscal Year

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term(2)		
	Number of Securities Underlying Options Granted(1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share(1)	Expiration Date	Annual Rates of Stock Price Appreciation For Option Term(2)		
					0%(3)	5%	10%
Michael T. Wedge	250,000	14.9%	\$ 23.62	5/28/14	\$ 0	\$ 3,713,623	\$ 9,411,049
Herbert J. Zarkin	250,000	14.9%	21.39	5/15/10	0	1,733,350	3,910,617
Frank D. Forward	50,000	3.0%	23.62	5/28/14	0	742,725	1,882,210
Edward F. Giles	50,000	3.0%	23.62	5/28/14	0	742,725	1,882,210
Karen Stout	50,000	3.0%	23.73	7/06/14	0	746,183	1,890,975

- (1) All options granted in 2004 were granted with an exercise price equal to the closing price of the common stock on the New York Stock Exchange on the date of grant. Except for options granted to Mr. Zarkin in 2004, these options expire ten years from the grant date and vest in equal annual installments over four years. Mr. Zarkin's options expire on May 15, 2010. 83,333 of Mr. Zarkin's options become exercisable beginning May 15, 2005; 83,333 become exercisable beginning May 15, 2006; and 83,334 become exercisable beginning the earlier of (i) May 15, 2007, and (ii) the date of the Company's 2007 Annual Meeting of Stockholders. All options vest upon a change of control (as defined in the Company's 1997 Stock Incentive Plan, as amended).

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- (2) The dollar amounts in these columns are the result of calculations at 0% and the arbitrary appreciation rates of 5% and 10% set by the SEC and are not intended to forecast possible future appreciation, if any, of the Company's stock price.
- (3) No gain to the optionees is possible without an appreciation in stock price, which will benefit all stockholders commensurately. A zero percent stock price appreciation will result in zero gain for the optionee.

Aggregated Option Exercises and Valuation

The following table sets forth, on an aggregated basis, the exercise of stock options during fiscal 2004 by each of the Named Executive Officers and the fiscal year-end value of unexercised options held by such officers:

**Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year-End Option Values**

	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-The-Money Options at Fiscal Year-End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Michael T. Wedge	62,112	\$ 823,300	301,250	518,750	\$ 1,838,775	\$ 3,790,625
Herbert J. Zarkin	350,000	5,435,710	392,500	437,500	2,140,925	3,991,875
Frank D. Forward			226,250	156,250	1,281,369	1,284,500
Edward F. Giles			56,500	108,000	266,800	770,000
Karen Stout				50,000		105,945

(1) Based on the fair market value of the common stock on January 28, 2005 (\$27.78 per share), less the option exercise price.

Long-Term Incentive Plans Awards in Last Fiscal Year

The following table sets forth information related to long-term incentive awards granted to the Named Executive Officers during fiscal 2004 pursuant to the BJGIP:

Name	Number of Shares, Units of Other Rights	Performance or Other Period Until Maturity or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans	
			Threshold	Target Maximum
Michael T. Wedge	20 Units 0 Units	fiscal 2004-fiscal 2006 fiscal 2004-fiscal 2006	\$ 323,500	\$ 2,000,000

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Herbert J. Zarkin (1)				
Frank D. Forward	10 Units	fiscal 2004-fiscal 2006	161,750	2,000,000
Edward F. Giles	10 Units	fiscal 2004-fiscal 2006	161,750	2,000,000
Karen Stout	8.6 Units	fiscal 2004-fiscal 2006	139,105	2,000,000

(1) Mr. Zarkin does not participate in the BJGIP.

Employees in high-level management positions in the Company, as selected by the Executive Compensation Committee, were awarded units under the BJGIP during fiscal 2004. Each unit has a value in dollars equal to a designated percentage of improvement in net income during the three-year fiscal period ending February 3, 2007 over base period income, as defined, for the year ended January 31, 2004. No payment will be made unless cumulative net income is at least equal to 10% compounded growth over the base period amount. The threshold amounts in the table above would be earned upon achievement of 10% compounded growth in earnings for the fiscal year ended January 29, 2005 and the fiscal years ending January 28, 2006 and February 3, 2007. No individual award payment can exceed \$2,000,000 in any calendar year. This limit is reflected in the maximum amount column of the table above. The BJGIP does not specify a target payout amount. Accordingly, pursuant to SEC rules, the target payout level in the table above assumes in each case that fiscal 2004's income level will be achieved in each of the three fiscal years during the award period. (If fiscal 2004's income level were achieved in each of fiscal 2005 and 2006, cumulative net income for the three-year period would be less than 10% compounded growth over the base period amount, and therefore, no payment would be earned.) The dollar amounts in the table are not intended to forecast future payments, if any, under the BJGIP.

The cash award, if any, earned under the BJGIP for the three-year award period ending February 3, 2007 will be paid in April 2007 to participants employed through February 3, 2007. No payment will be made unless the minimum three-year net income goal is achieved.

Equity Compensation Plan Information

The following table provides information about the securities authorized for issuance under the Company's equity compensation plans as of January 29, 2005:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	6,700,702	\$ 24.37	2,763,385(1)
Equity compensation plans not approved by security holders (2)			
Total	6,700,702	\$ 24.37	2,763,385

(1) The number of securities remaining for future issuance consists of 2,763,385 shares issuable under the Company's 1997 Stock Incentive Plan, which was approved by the Company's stockholders. Awards under the 1997 Stock Incentive Plan may include restricted stock, unrestricted stock, stock appreciation rights, performance shares or other equity-based awards, as the Board of Directors may determine.

(2) The Company has no equity compensation plans not approved by security holders.

Retirement Benefits

Under the BJERP, employees in high-level management positions in the Company including all executive officers, as selected by the ECC, are eligible to receive annual cash retirement contributions in an amount determined by the ECC; provided that the annual retirement contribution shall equal, on an after-tax basis, at least three percent of the participant's base salary. All amounts paid under the BJERP are to be used exclusively to fund an investment vehicle, selected by the ECC, which is appropriate to provide retirement income, such as an insurance policy.

The Company made retirement contributions after the end of 2004 equal to 5% (net of taxes) of each participant's base salary during 2004. These payments are reflected in the All Other Compensation column of the Summary Compensation Table on page 15. If a participant terminates employment prior to the end of the fiscal year in which the participant is credited with four years of service, the participant forfeits the right to any benefit under the BJERP. As of January 29, 2005, all Named Executive Officers except Ms. Stout, were credited with at least four years of service.

Employment and Severance Agreements

Pursuant to his employment agreement, Mr. Wedge receives an annual base salary of \$800,000 and participates in specified incentive and other benefit plans. The Company is entitled to terminate Mr. Wedge's employment at any time with or without cause (as defined). If Mr. Wedge's employment is terminated by the Company other than for cause, the Company is required to pay certain cash compensation amounts and to continue payment of Mr. Wedge's base salary and certain benefits for 12 months after termination at the rate in effect upon termination. The continuing base salary payments are subject to reduction after three months for compensation earned by Mr. Wedge from other employment, and the continuing benefits are subject to reduction at any time for comparable benefits received by Mr. Wedge from other employment.

Pursuant to his employment agreement, Mr. Zarkin receives an annual base salary of \$525,000 and participates in specified incentive and other benefit plans. Mr. Zarkin's employment agreement continues in

effect until the earlier of such time as either party terminates the agreement or the date of the Company's 2007 Annual Meeting of Stockholders. Mr. Zarkin does not participate in BJJIP or MIP. Mr. Zarkin must generally devote all of his working time and attention to the performance of his duties and responsibilities under his employment agreement. The Company is entitled to terminate Mr. Zarkin's employment at any time with or without cause (as defined). If his employment terminates by reason of death, disability, incapacity or termination by the Company other than for cause, Mr. Zarkin is entitled to payment of certain cash compensation amounts and continuation of base salary and certain benefits for a period of 12 months after termination at the rate in effect upon termination. Any stock options or other stock-based awards held by Mr. Zarkin on the date of termination will continue to vest for up to three years, when they will expire, unless they expire earlier by their terms. The continuing base salary payments are subject to reduction after three months for compensation earned by Mr. Zarkin from other employment, and the continuing benefits are subject to reduction at any time for comparable benefits received by Mr. Zarkin from other employment.

The Company has an employment agreement with each of Messrs. Forward and Giles and Ms. Stout under which they receive annual base salaries of \$395,000, \$350,000, and \$375,000, respectively, and participate in specified incentive and other benefit plans. If employment is terminated by the Company other than for cause, each such executive is entitled to payment of certain cash compensation amounts and to certain benefits and continuation of base salary for 12 months after termination at the rate in effect upon termination. The continuing base salary payments to Messrs. Forward and Giles are subject to reduction after three months for compensation earned by the executive from other employment. The continuing base salary payments to Ms. Stout are payable and are not subject to reduction provided that at the time of termination, Ms. Stout executes a suitable release agreement for the benefit of the Company. The continuing base salary payments to Ms. Stout do, however, cease if she becomes employed by certain organizations that compete against the Company. The continuing benefits to each of Messrs. Forward and Giles and Ms. Stout are subject to reduction at any time for comparable benefits received by the executive from other employment.

Change of Control Severance Benefits

The Company provides change of control severance benefits to its executive officers under individual agreements. Under the agreements, in general, upon the earlier of a Change of Control or a Potential Change of Control (as such terms are defined in the agreements) of the Company, the executive would be entitled to accelerated lump-sum payments of the MIP target award prorated for the year in which the change of control occurs. If, during the Standstill Period (which is 24 months after a Change of Control, except that if a Change of Control does not occur within 12 months of the Potential Change of Control, the Standstill Period will end 12 months after the Potential Change of Control), the Company were to terminate the executive's employment other than for cause (as defined) or the executive were to terminate employment for reasons specified in the agreement, or if employment were to terminate by reason of death, disability or incapacity, the executive would be entitled to receive an amount equal to, in the case of Ms. Stout, Messrs. Forward and Giles, two and one-half times their base salaries and MIP, and in the case of Mr. Wedge, three times his base salary and MIP, unless the executive's termination occurs between eight and twelve months after a Change of Control and is voluntary, in which event the executive would be entitled to receive an amount equal to the executive's annual salary and MIP. For up to two and one-half years following termination in the case of each of Ms. Stout and Messrs. Forward and Giles, and three years in the case of Mr. Wedge, the Company would also

be obligated to provide specified benefits, including continued medical and life insurance benefits, unless the executive's termination occurs between eight and twelve months after a Change of Control and is voluntary, in which event the executive would be entitled to receive such benefits for up to one year. In the event of a Change of Control, the Company may reduce any payments to the executive to the extent necessary to preserve the tax deductibility of such payments under the Code. The Company would also be obligated to pay all legal fees and expenses reasonably incurred by the executive in seeking enforcement of contractual rights to which the executive becomes entitled during the Standstill Period. In addition, upon involuntary termination within the Standstill Period, any agreement by the executive not to compete with the Company following termination of the executive's employment would cease to be effective.

Indemnification Agreements

The Company has entered into agreements with each of its directors and executive officers indemnifying them against expenses, settlements, judgments and fines incurred in connection with any threatened, pending or completed action, suit, arbitration or proceeding, where the individual's involvement is by reason of the fact that he or she is or was a director or officer of the Company or served at the Company's request as a director of another organization (except that indemnification is not provided against judgments and fines in a derivative suit unless permitted by Delaware law). An individual may not be indemnified if he or she is found not to have acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company, except to the extent Delaware law permits broader contractual indemnification. The indemnification agreements provide procedures, presumptions and remedies designed to substantially strengthen the indemnity rights beyond those provided by the Company's Amended and Restated Certificate of Incorporation and by Delaware law.

Certain Transactions

During fiscal 2004, Messrs. Gerald and Norman Zarkin, brothers of Mr. Zarkin, the Company's Chairman of the Board, had an interest in the following business transactions involving the Company.

In fiscal 2004, the Company purchased approximately \$865,000 in merchandise from Tee's Plus Corporation (Tee's Plus), where Mr. Gerald Zarkin is an employee. In addition, the Company has an arrangement with Tee's Plus for the sale of embroidered apparel and the Company receives a percentage of the sales made by Tee's Plus to the Company's members. In fiscal 2004, the total amount of sales by Tee's Plus to the Company's members was approximately \$417,000 of which the Company received approximately \$33,000 pursuant to this arrangement. Mr. Gerald Zarkin earned approximately \$12,000 in commissions and other payments from Tee's Plus with respect to these purchases by the Company. In addition, the Company has a consignment arrangement with Universal Supply MC, LLC (Universal) for the sale of specialty caps and also purchases certain merchandise from Universal. The Company provides space in its clubs for the display of Universal's cap inventory and the Company receives a percentage of the sales made by Universal to the Company's members. In fiscal 2004, the total amount of consignment sales was approximately \$4 million, of which the Company received approximately \$680,000 from Universal pursuant to this arrangement. In addition, the Company paid approximately \$182,000 for merchandise purchased from Universal. Mr. Gerald Zarkin has a ten percent interest in Universal and received approximately \$117,000 in commissions related to these transactions.

Mr. Norman Zarkin is the sole shareholder of The Zarkin Group, Inc. The Zarkin Group, Inc. serves as a consultant for Wireless Retail, Inc. (WRI), which provides direct sales of wireless services and equipment to the Company's members. Pursuant to an arrangement between the Company and WRI, the Company provides WRI with space in the Company's clubs and the Company receives a flat fee calculated based on sales volume plus a percentage of the sales made by WRI to the Company's members.

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In fiscal 2004, the Company received approximately \$3 million from WRI pursuant to this arrangement and The Zarkin Group, Inc. was paid approximately \$25,000 in consulting fees and commissions by WRI with respect to sales by WRI to the Company's members. In addition, in fiscal 2003, The Zarkin Group, Inc. received approximately \$27,000, in the aggregate, in commissions for sales made to the Company by The Stratis Group, Inc., Handi Foil, Inc. and Frank Mastaloni & Sons, each of which is a vendor of the Company. In the aggregate, the Company purchased approximately \$1.8 million of merchandise from these vendors.

The Company believes that each of the transactions described above was carried out on terms that were no less favorable to the Company than those that would have been obtained from unaffiliated third parties.

During fiscal 2004, the Company had an agreement with Fidelity Management Trust Company (FMTC) to provide 401(k) plan administration. FMTC also serves as trustee with respect to the assets of the Company's 401(k) plans. The Company paid fees for these services totaling approximately \$153,935 in fiscal 2004. Additionally, fees are paid by plan participants in the form of investment management services fees generated on various transactions including loan setup and related fees. FMTC is a subsidiary of FMR Corp. and, as of December 31, 2004, FMR Corp. beneficially owned more than five percent of the Company's common stock.

RELATIONSHIP WITH HOUSE2HOME; CONFLICTS OF INTEREST

In connection with the spin-off of the Company from Waban in July 1997 (the Distribution), BJ s and House2Home entered into several agreements. Although the following summaries of certain of these agreements set forth an accurate description of their material terms and provisions, such summaries are qualified in their entirety by reference to the detailed provisions of the agreements, each of which has previously been filed with the SEC.

Distribution Agreement

BJ s and House2Home entered into a Separation and Distribution Agreement (the Distribution Agreement), which provided for, among other things, (i) the division between BJ s and House2Home of certain assets and liabilities; (ii) other agreements governing certain aspects of the relationship between BJ s and House2Home following the Distribution; and (iii) an agreement regarding certain matters relating to lease liabilities described below.

Under the Distribution Agreement, except as provided in the other agreements, BJ s agreed to indemnify House2Home for liabilities relating to BJ s business. Similarly, House2Home agreed to indemnify BJ s for liabilities pertaining to House2Home s business. The Distribution Agreement also requires BJ s and House2Home to indemnify each other for losses incurred due to a failure to perform their respective obligations under the Distribution Agreement or any other agreement entered into in connection with the Distribution.

Leases

Pursuant to the Distribution Agreement, effective upon the Distribution, BJ s assumed all liabilities to third-party lessors with respect to leases entered into by Waban with respect to the BJ s Division and agreed to indemnify House2Home for such liabilities.

In connection with the spin-off of Waban by The TJX Companies, Inc. (TJX) in 1989 Waban and TJX entered into an agreement (the 1989 Agreement) pursuant to which Waban agreed to indemnify TJX against any liabilities that TJX might incur with respect to certain House2Home real estate leases as to which TJX was either a lessee or guarantor. Pursuant to a subsequent agreement, BJ s agreed to indemnify TJX for 100% of House2Home s lease liabilities through January 31, 2003, and for 50% of such liabilities thereafter.

House2Home filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code on November 7, 2001. In 2001, the Company recorded pre-tax charges of \$106.4

million (including interest accretion charges of \$1.4 million) for its estimated loss associated with 41 House2Home leases. On a post-tax basis, these charges totaled \$63.8 million, or \$.86 per diluted share. This loss was based on the present value of rent liabilities under these leases, including estimated real estate taxes and common area maintenance charges, reduced by estimated income from the subleasing of these properties. An annual discount rate of 6% was used to calculate the present value of these lease obligations.

In 2002, the Company settled its obligations for 23 House2Home leases through lump sum payments. The leases for four additional House2Home properties were assigned to third parties (BJ s remains contingently liable for three of these leases). Based on the significant progress made in settling these leases and an evaluation of its remaining obligations, the Company recorded a pre-tax gain of \$20.0 million to reduce its obligations related to House2Home leases, offset by pre-tax interest accretion charges of \$4.4 million. Taken together, these amounts resulted in a post-tax gain of \$9.4 million, or \$.13 per diluted share.

In 2003, the Company settled its obligations for 12 additional House2Home leases through lump sum payments and recorded a pre-tax gain of \$5.5 million (\$3.3 million post-tax) to reflect favorable progress in settling the remaining House2Home leases, offset by pre-tax interest accretion of \$1.0 million.

As of January 29, 2005, all 41 of the House2Home leases for which the Company was contingently liable have been settled, including lump sum settlements for 38 leases. The other three House2Home properties (for which the Company remains contingently liable) have been assigned to third parties who, to the knowledge of the Company, are satisfying all obligations under such leases on a current basis. In 2004, the Company recorded a pre-tax gain of \$2.7 million (\$1.6 million post-tax) to reflect favorable progress in settling the remaining House2Home leases, offset by pre-tax interest accretion of \$0.2 million.

Tax Sharing Agreement

BJ's and House2Home entered into a Tax Sharing Agreement (the "Tax Sharing Agreement") providing for the allocation between the parties of federal, state, local and foreign tax liabilities and the entitlement to tax refunds for periods beginning prior to the date of the Distribution, and various related matters. In 2003, the Company also recognized a reduction in its tax provision of \$1.7 million due to state tax liabilities which were assumed by House2Home as part of the settlement agreement described below.

Settlement Agreement

The Company has filed proofs of claim against House2Home for claims arising primarily from BJ's indemnification of TJX with respect to TJX's guarantee of House2Home leases and from the Tax Sharing Agreement. House2Home and its creditors committee contested the validity and amount of the claims filed by BJ's and the creditors committee threatened action against BJ's on account of claims arising out of the 1997 spin-off of the Company from Waban. The Company entered into a settlement agreement with House2Home, which has been approved by the Bankruptcy Court which resolves the proofs of claim filed by BJ's and releases BJ's, its officers and directors and the officers and directors of House2Home who were also officers or directors of the Company of all claims and liabilities, including any claims arising out of the 1997 spin-off. BJ's claims on account of payments to landlords are allowed in the amount of \$29.8 million and its claims under the Tax Sharing Agreement have been allowed in the amount of \$8.0 million. In 2004, BJ's received payments of \$4.5 million on account of these claims. In addition, BJ's entered into an agreement with the Indenture Trustee for certain subordinated notes issued by House2Home which settles BJ's claim that BJ's claims against House2Home constitute senior debt within the meaning of the indenture governing the House2Home subordinated notes. The Indenture Trustee paid the Company \$2.5 million in 2004. BJ's is not entitled to any other payments from the Indenture Trustee.

Procedures for Addressing Conflicts

As a result of the Distribution, BJ's and House2Home had significant contractual and other ongoing relationships that may present certain conflict situations for Mr. Zarkin, who serves as Chairman of the Board of Directors of the Company and who served as Chairman of the Board of Directors of House2Home from July 1997 to June 2002, and

for Mr. Waxlax, who serves as a director of the Company and who served as a director of House2Home from July 1997 to March 2002. BJ's has adopted procedures to be followed by its Board of Directors to limit the involvement of such persons in conflict situations whereby all transactions being considered by BJ's which relate to House2Home must (i) be approved by a majority of the Board of Directors and by a majority of the disinterested members of the Board of Directors and (ii) be on terms no less favorable to BJ's than could be obtained from unaffiliated third parties, as determined by a majority of the Board of Directors and by a majority of the disinterested members of the Board of Directors.

In October 2001, the Board appointed a Special Committee comprised of Messrs. Coppersmith, Dion and Mitchell, each of whom is a disinterested and independent member of the Board, to act for the Board on matters pertaining to House2Home. The Special Committee approved the settlements described above. In July 2004, the Board dissolved the Special Committee.

PROPOSAL TWO

**RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

The Audit Committee has selected the firm of PricewaterhouseCoopers LLP, independent registered public accounting firm, as the Company's independent registered public accounting firm for the fiscal year ending January 28, 2006. Although stockholder approval of the selection of PricewaterhouseCoopers LLP is not required by law, the Company's Board of Directors believes that it is advisable to give stockholders an opportunity to ratify this selection. If this proposal is not approved by the Company's stockholders at the 2005 annual meeting, the Audit Committee will reconsider its selection of PricewaterhouseCoopers LLP. Even if the selection of PricewaterhouseCoopers LLP is ratified, the Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the 2005 annual meeting. They will have the opportunity to make a statement if they desire to do so and will also be available to respond to appropriate questions from stockholders.

**THE COMPANY'S BOARD OF DIRECTORS RECOMMENDS A VOTE FOR
THE RATIFICATION**

**OF THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS THE
COMPANY'S**

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE
2005 FISCAL YEAR.**

AUDIT COMMITTEE REPORT

The Audit Committee (the Committee) consists of four directors, each of whom is independent as defined by the applicable standards of the New York Stock Exchange. A brief description of the responsibilities of the Committee is set forth above under the caption "The Board of Directors and its Committees" on page 6.

The Committee has reviewed and discussed the Company's audited financial statements for fiscal 2004 with the management of the Company. The Committee has discussed with PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards 61 (Communication with Audit Committees). The Committee also has

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received the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 (Independence discussion with Audit Committees) and has discussed with PricewaterhouseCoopers LLP its independence from the Company. The Committee also considered whether the independent registered public accounting firm's provision of the other, non-audit related services to the Company which are referred to in "All Other Fees" on page 24 is compatible with maintaining such firm's independence.

Based on the review and the discussions referred to above, the Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005, for filing with the SEC.

The Audit Committee

Thomas J. Shields, *Chairman*

S. James Coppersmith

Paul Danos

Bert N. Mitchell

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES AND
OTHER MATTERS**

Fees to Independent Registered Public Accounting Firm

The following table presents the fees of PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, billed to the Company for each of the last two fiscal years.

	Fiscal Year Ended	
	January 29, 2005	January 31, 2004
Audit Fees (1)	\$ 2,408,902	\$ 705,926
Audit-Related Fees (2)	54,353	51,640
Tax Fees (3)	75,925	145,480
All Other Fees	0	0
Total	\$ 2,539,180	\$ 903,046

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- (1) Audit fees consisted of audit work performed in the preparation of financial statements for the fiscal years noted, including reviews of the financial statements included in each of the Company's quarterly reports on Form 10-Q during fiscal 2004 and fiscal 2003, and in 2004 included \$1,678,290 related to the audit of the Company's internal control over financial reporting.
- (2) Audit-related fees consisted principally of consultations concerning financial accounting and reporting standards as well as assurance and related services that are reasonably related to the performance of the audit and review of the Company's financial statements and which are not reported under Audit Fees. Consultations and related services included, specifically, consultations in fiscal 2004 regarding the Company's transfer of benefit plan assets between trustees, as well as additional benefit plan audit services, and consultations in fiscal 2003 regarding preparedness for compliance with Section 404 of Sarbanes-Oxley Act and regarding analysis of lease liabilities with respect to the House2Home leases.
- (3) Tax fees consisted of fees for tax compliance, tax advice and tax planning services. Tax compliance services accounted for \$32,839 in fiscal 2004 and \$31,255 in fiscal 2003.

Preapproval Policies and Procedures

The Audit Committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by the Company's independent registered public accounting firm. This policy generally provides that the Company will not engage its independent registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee or the engagement is entered into pursuant to one of the pre-approval

procedures described below.

From time to time, the Audit Committee may pre-approve specified types of services that are expected to be provided to the Company by its independent registered public accounting firm during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.

The Audit Committee has also delegated to the chairman of the Audit Committee the authority to approve any audit or non-audit services to be provided to the Company by its independent registered public accounting firm. Any approval of services by the Chairman of the Audit Committee pursuant to this delegated authority is reported at the next meeting of the Audit Committee.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers and persons who own more than ten percent of a registered class of the Company's equity securities to file with the SEC and the New York Stock Exchange initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Executive officers, directors and greater-than-ten-percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations regarding the filing of required reports, all Section 16(a) filing requirements applicable to its directors, executive officers and greater-than-ten-percent beneficial owners with respect to fiscal 2004 were met.

STOCKHOLDER PROPOSALS

Proposals of stockholders intended to be presented at the 2006 annual meeting of stockholders, pursuant to Rule 14a-8 under the Exchange Act, must be received by the Company no later than 5 p.m. Eastern Time on December 23, 2005, in order to be considered for inclusion in the Company's proxy materials for that meeting. The Company suggests that proponents submit their proposals via registered or certified mail addressed to Kellye L. Walker, Secretary, BJ's Wholesale Club, Inc., One Mercer Road, Natick, Massachusetts 01760.

The Company's by-laws require that the Company be given advance written notice of stockholder nominations for election to the Company's Board of Directors and of other matters which stockholders wish to present for action at an annual meeting of stockholders (other than matters included in the Company's proxy materials in accordance with Rule 14a-8 under the Exchange Act). The Secretary must receive such notice at the address noted above not less than 70 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting, provided, however, that in the event that the date of the annual meeting is advanced by more than 20 days, or delayed by more than 70 days, from such anniversary date, the Secretary must receive such notice not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 70th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such annual meeting is first made. Assuming that the 2006 annual meeting is held during the period from April 30, 2006 to July 29, 2006 (as it is expected to be), in order to comply with the time periods set forth in the Company's by-laws, appropriate notice would need to be provided to the Secretary of the Company at the address noted above no earlier than February 25, 2006, and no later than March 17, 2006. If a stockholder fails to provide timely notice of a proposal to be presented at the 2006 annual meeting, the proxies designated by the Board of Directors of the Company will have discretionary authority to vote on any such proposal which may come before the meeting.

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The Company's by-laws also specify requirements relating to the content of the notice which stockholders must provide to the Secretary of the Company for any matter, including a stockholder nomination for director, to be properly presented at a stockholder meeting.

OTHER MATTERS

The Board of Directors has no knowledge of any other matter which may come before the meeting and does not intend to present any such other matter. Pursuant to the Company's by-laws, the deadline for stockholders to notify the Company of any proposals or director nominations to be presented for action at the annual meeting has passed. However, if any other matters shall properly come before the meeting or any adjournment thereof, the persons named as proxies will have discretionary authority to vote the shares represented by the accompanying proxy in accordance with their own judgment.

The Executive Compensation Committee Report on Executive Compensation appearing on pages 12 through 14, the Audit Committee Report appearing on page 23, the Performance Graph appearing on page 11 and the information regarding the Audit Committee's Charter and the independence of Audit Committee members appearing on page 6 shall not be deemed incorporated by reference by any general statement incorporating this proxy statement into any filing under the Securities Act of 1933 or under the Exchange Act, except to the extent that the Company specifically incorporates such information by reference, and shall not otherwise be deemed filed under such Acts.

The cost of solicitation of proxies will be borne by the Company. The Company has retained Georgeson Shareholder Communications Inc. to assist in soliciting proxies by mail, e-mail, telephone and personal interview for a fee of \$6,500, plus expenses. Officers and employees of the Company may, without additional remuneration, also assist in soliciting proxies in the same manner. Brokers, custodians and fiduciaries will be requested to forward proxy soliciting materials to the owners of stock held in their names, and the Company will reimburse them for their reasonable out-of-pocket expenses incurred in connection with the distribution of proxy materials.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of the Company's proxy statement or annual report to stockholders may have been sent to multiple stockholders in each household. The Company will promptly deliver a separate copy of either document to any stockholder upon written or oral request to the Investor Relations Department of the Company, BJ's Wholesale Club, Inc., One Mercer Road, Natick, MA 01760, telephone: (508) 651-6650. Any stockholder who wants to receive separate copies of the proxy statement or annual report to stockholders in the future, or any stockholder who is receiving multiple copies and would like to receive only one copy per household, should contact the stockholder's bank, broker, or other nominee record holder, or the stockholder may contact the Company at the above address and phone number.

By Order of the Board of
Directors

KELLYE L. WALKER

Secretary

BJ's Wholesale Club, Inc.

Charter of the Audit Committee of the Board of Directors

(Amended and Adopted by the Board of Directors as of December 8, 2004)

Purpose:

The purpose of the Audit Committee is (i) to assist the Board of Directors' oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independent auditors' qualifications and independence and the performance of the Company's internal audit functions and independent auditors and (ii) to prepare an audit committee report as required by the Securities and Exchange Commission to be included in the Company's annual proxy statement.

Members:

The Audit Committee shall consist of at least three directors of the Board of Directors, one of whom shall be designated as chairperson. Except as otherwise permitted by the applicable rules of the New York Stock Exchange, each member of the Audit Committee shall be independent as defined by such rules.

Each member of the Company's Audit Committee must be financially literate (or must become financially literate within a reasonable period of time after his or her appointment to the Audit Committee), and at least one member of the Audit Committee shall have accounting or related financial management expertise, both as determined in the Board of Directors' business judgment. No member of the Audit Committee may receive, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries, other than fees paid in his or her capacity as a member of the Board of Directors or a committee of the Board.

Members of the Audit Committee shall be appointed by the Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee. Unless otherwise determined by the Board (in which case disclosure of such determination shall be made in the Company's annual proxy statement), no member of the Audit Committee may serve on the audit committee of more than two other public companies. The Board of Directors may remove members of the Audit Committee

from such committee, with or without cause.

Responsibilities:

The Audit Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management and the independent auditors, in accordance with its business judgment.

Management is responsible for the preparation, presentation and integrity of the Company's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company. The independent auditors are responsible for auditing the Company's financial statements and for reviewing the Company's unaudited interim financial statements. The authority and responsibilities set forth in this Charter do not reflect or create any duty or obligation of the Audit Committee to plan or conduct any audit, to determine or certify that the Company's financial statements are complete, accurate, fairly presented, or in accordance with generally accepted accounting principles or applicable law, or to guarantee the independent auditors' report.

The Audit Committee shall:

1. Review the qualifications and independence of the Company's independent auditors, who shall report directly to the Audit Committee. In particular, the Audit Committee shall:
 - A. Appoint, evaluate, and, when circumstances warrant, discharge the independent auditors;
 - B. Oversee the work of the independent auditors, including resolution of disagreements between Company management and the independent auditors regarding financial reporting;
 - C. Set compensation of the independent auditors and is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of the independent auditors established by the Audit Committee;
 - D. Pre-approve all services (audit and non-audit) to be provided to the Company by the independent auditors, *provided, however*, that de minimis non-audit services may instead be approved in accordance with applicable New York Stock Exchange and Securities and Exchange Commission rules;
 - E. Conduct a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to management by the independent auditors;
 - F. Review the nature of any non-audit services performed by the independent auditors;
 - G. At least annually, the Audit Committee shall assess the independent auditors' independence. In connection with this assessment, the Audit Committee shall obtain and review information, including written statements from the independent auditors, describing all relationships between the auditors and the Company or any other relationships that may adversely affect the independence of the auditors, and otherwise assess the independence of the independent auditors as set forth in Independence Standards Board Standard No. 1. The Audit Committee shall engage in an active dialogue with the auditors concerning any disclosed relationships or services that might impact the objectivity and independence of the auditors; and
 - H. Receive and consider the reports required to be made by the independent auditors regarding: critical accounting policies and practices; alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with Company management, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors; and other material written communications between the independent auditors and Company management.

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2. Review and discuss with management and the independent auditors the Company's annual audited financial statements, including a discussion with the auditors of their judgment as to the Company's accounting principles, the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations and the matters about which Statement on Auditing Standards No. 61 requires discussion.
3. Consider whether it will recommend to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.
4. Review with management and the independent auditors the results of any significant matters identified as a result of the independent auditors' interim review procedures prior to the filing of each Form 10-Q, and discuss with the Company's management and independent auditors the Company's quarterly financial statements, including the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations.
5. Discuss generally the types of information to be disclosed in the Company's earnings press releases, as well as in financial information and earnings guidance provided to analysts, rating agencies and others.
6. At least annually, obtain and review a report by the independent auditors describing the firm's internal quality-control procedures, and any material issues raised by the most recent internal quality-control review,

or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

7. In connection with its oversight role, from time to time as appropriate, review with the independent auditors:

any audit problems or difficulties the independent auditors encountered in the course of the audit work and management's response, including any restrictions on the scope of the independent auditors' activities or on access to requested information and any significant disagreements with management;

major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies;

analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles methods on the financial statements; and

the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.

8. Coordinate the Board of Directors' oversight of the Company's internal control over financial reporting (including review of the Company's process of ensuring accurate and reliable financial reporting), disclosure controls and procedures and code of business conduct and ethics. Pursuant to such coordination, the Committee shall:

A. At least annually, ascertain through discussions with management the adequacy of the Company's system of internal controls, discuss such system with the independent auditors and the Company's Vice President, Manager of Internal Audit, and coordinate the Board of Directors' oversight of the performance of the Company's internal audit function;

B. Review the appointment and dismissal of the Vice President, Manager of Internal Audit;

C. Receive and review the reports of the CEO and CFO required by Rule 13a-14 of the Exchange Act;

D. Review the Internal Audit Department's annual plan; and

E. Review reports issued by the Internal Audit Department summarizing its findings, recommendations and responses from management as to the corrective actions to be implemented.

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9. Discuss the Company's policies with respect to risk assessment and risk management, including guidelines and policies to govern the process by which the Company's exposure to risk is handled.
10. Establish policies regarding the hiring of employees or former employees of the Company's independent auditors.
11. On at least an annual basis, review with the Company's counsel any legal matters that could have a significant impact on the Company's financial statements.
12. Institute, conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, and the Audit Committee shall have the authority to request any officer, employee or advisor of the Company to meet with the Audit Committee or any advisors engaged by the Audit Committee.
13. Be authorized, without further action by the Board of Directors, to engage such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. Such independent advisors may be the regular advisors to the Company. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of such advisors as established by the Audit Committee. In addition, the Audit Committee is empowered, without

further action by the Board of Directors, to cause the Company to pay the ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

14. Regularly update the Board of Directors about the Audit Committee's activities.
15. At least annually, review and reassess the adequacy of the Audit Committee Charter and present the revised or unchanged charter annually to the Board of Directors for approval.
16. At least annually, evaluate its own performance.
17. Prepare for inclusion where necessary in a proxy or information statement of the Company relating to an annual meeting of security holders at which directors are to be elected (or special meeting or written consents in lieu of meeting), the report described in Item 306 of Regulation S-K of the Securities and Exchange Commission.
18. Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
19. Have such other duties as may be delegated from time to time by the Board of Directors.

Meetings:

The Audit Committee will meet as often as it deems necessary or appropriate in its judgment, either in person or telephonically, and at such times and places as the Audit Committee determines. The Audit Committee may also act by unanimous written consent in lieu of a meeting. As it deems appropriate, the Audit Committee shall periodically meet separately with the independent auditors, Company management and the Company's internal auditors, including the Chief Financial Officer and/or the Senior Vice President, Finance, and the Vice President, Manager of Internal Audit. The majority of the members of the Audit Committee shall constitute a quorum at any meeting. The Audit Committee may form and delegate authority to one or more subcommittees (including a subcommittee of a single member) as it deems appropriate from time to time under the circumstances. Any decision of a subcommittee to pre-approve audit, review, attest or non-audit services shall be presented to the full Audit Committee at its next scheduled meeting. The Audit Committee shall keep such records of its meetings as it shall deem appropriate.

and

BJ'S WHOLESALE CLUB, INC.

YOUR VOTE IS IMPORTANT

**VOTE BY INTERNET /
TELEPHONE**

24 HOURS A DAY, 7 DAYS A WEEK

<u>INTERNET</u>	<i>OR</i>	<u>TELEPHONE</u>	<i>OR</i>	<u>MAIL</u>
https://www.proxyvotenow.com/bj		1-866-213-0603		
Go to the website address listed above.		Use any touch-tone telephone.		Mark, sign and date your proxy card.
Have your proxy card ready.		Have your proxy card ready.		Detach your proxy card.
Follow the simple instructions that appear on your computer screen.		Follow the simple recorded instructions.		Return your proxy card in the postage-paid envelope provided.

Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned the proxy card. **If you have submitted your proxy by telephone or the Internet there is no need for you to mail back your proxy.**

Internet and telephone votes must be received by 5 p.m., eastern time, on Wednesday, May 25, 2005 to be counted in the final tabulation.

If you vote by the Internet or by telephone, please do not mail your card.

DETACH HERE IF YOU ARE RETURNING YOUR PROXY CARD BY MAIL.

Please Sign, Date and Return the Proxy Card Promptly Using the Enclosed Envelope.

x Votes must be indicated (x) in Black or Blue ink.

The Board of Directors recommends a vote FOR the election of directors and FOR Proposal 2.

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1. Election of Directors for a term to expire in 2008.

FOR ALL " WITHHOLD FOR ALL " EXCEPTIONS "

Nominees: 01 Paul Danos, 02 Ronald R. Dion and 03 Lorne R. Waxlax

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, strike a line through that nominee's name and check the Exceptions box above.)

2. Ratification of the audit committee's selection of PricewaterhouseCoopers, LLP as the Company's independent registered public accounting firm for the fiscal year ending January 28, 2006.

FOR " AGAINST " ABSTAIN "

Mark box at right if you plan to attend the Annual Meeting. "

Mark box at right if an address change or comment has been noted on the reverse side of this card. "

S C A N L I N E

Please sign exactly as the name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. Only authorized officers should sign for corporations. PLEASE SIGN AND DATE HERE AND RETURN PROMPTLY ONLY IF YOU ARE VOTING BY MAIL.

The signer hereby revokes all proxies heretofore given by the signer to vote at said meeting or any adjournment thereof.

Date Share Owner sign here Co-Owner sign here

BJ s WHOLESale

CLUB, INC.

As part of BJ s Wholesale Club, Inc. s ongoing efforts to reduce expenses, we are asking our stockholders to authorize us to send only one copy of stockholder publications to their respective households. If you are receiving multiple copies of stockholder reports at your address and wish to eliminate them for the account shown on the attached proxy card, please write or call our Investor Relations Department, BJ s Wholesale Club, Inc., One Mercer Road, Natick, MA 01760, telephone: (508) 651-6650. You will continue to receive your proxy mailing for shares held in this account.

We urge you to vote your shares. Thank you very much for your cooperation and continued loyalty as a BJ s Wholesale Club, Inc. stockholder.

PROXY

BJ s WHOLESale CLUB, INC.

Proxy Solicited on Behalf of the Board of Directors

for the Annual Meeting of Stockholders, May 26, 2005

The undersigned hereby appoints Frank D. Forward, Thomas J. Shields and Kellye L. Walker, and each of them singly, as proxies, with full power of substitution, to represent and to vote, as designated herein, all shares of Common Stock of BJ s Wholesale Club, Inc., at the Annual Meeting of Stockholders of BJ s Wholesale Club, Inc. to be held at the Crowne Plaza Hotel, 1360 Worcester Street (Route 9), Natick, Massachusetts, on Thursday, May 26, 2004 at 11 a.m., and at all adjournments thereof, at which the undersigned could vote, if present, in such manner as they may determine on any matters which may properly come before the meeting and to vote as specified on the reverse side hereof.

You are encouraged to specify your choices by marking the appropriate boxes on the reverse side but you need not mark any boxes if you wish to vote in accordance with the Board of Directors recommendation. Please sign and return this card if you are voting by mail.

THIS PROXY, WHEN PROPERLY EXECUTED ON THE REVERSE SIDE OF THIS CARD, WILL BE VOTED IN THE MANNER DIRECTED. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR PROPOSAL 2. THE PROXIES, IN THEIR DISCRETION, ARE AUTHORIZED TO VOTE UPON SUCH

OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.

ADDRESS CHANGE / COMMENTS

BJ S WHOLESALE CLUB, INC.

P.O. BOX 11093

NEW YORK, N.Y. 10203-0093

**PLEASE VOTE, DATE AND SIGN THIS PROXY ON THE OTHER SIDE AND
RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.**